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FISCAL IMPACT STATEMENT

LS 6427 **NOTE PREPARED:** Dec 14, 2006
BILL NUMBER: HB 1370 **BILL AMENDED:**

SUBJECT: Clean Fuel Vehicle Deduction.

FIRST AUTHOR: Rep. Stevenson **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: The bill provides that an individual is entitled to an Income Tax deduction for the purchase or lease of a new clean fuel vehicle.

Effective Date: January 1, 2008.

Explanation of State Expenditures: The Department of State Revenue (DOR) will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the new deduction for clean fuel vehicle purchases or leases. The DOR's current level of resources should be sufficient to implement this change.

Explanation of State Revenues: The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities of individual taxpayers who purchase or lease a "clean fuel vehicle." The deduction is equal to $1,500 per vehicle purchased or leased. The revenue loss due to the deduction could potentially total about $1.3 M to $2.3 M in FY 2009, with the revenue loss growing by about 15% annually thereafter.

Background Information: The bill creates an AGI Tax deduction for individual taxpayers who purchase or lease a "clean fuel vehicle" in the year the taxpayer purchases the vehicle, or enters into the lease agreement for the vehicle. The bill defines a "clean fuel vehicle"as a vehicle equipped to operate when fueled entirely by E85, an electric vehicle, or a hybrid vehicle. The bill provides that the original use of the vehicle for which a taxpayer is claiming the deduction must begin with that taxpayer. In addition, the deduction is not allowable for vehicles purchased for the purpose of resale. The revenue loss estimate is based on national auto sales estimates imputed to Indiana based on Indiana's national population share, and national market share estimates for hybrid vehicles and E85 vehicles. The estimates also have been adjusted to account for the share of vehicles that could potentially be sold to businesses for fleets. The lower bound assumes a lower Indiana share of hybrid sales based on the distribution of annual new hybrid registrations by state. It also assumes a lower E85 sales base relying on estimates of national production totals.

Since the deduction is effective beginning in tax year 2008, the fiscal impact would begin in FY 2009. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue is deposited in the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the proposed deduction would serve to decrease taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable decrease in revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with local option income taxes.

Information Sources: Office for the Study of Automotive Transportation, Transportation Research Institute, http://www.osat.umich.edu/research/economic/SofAuto2005.pdf. Edmunds.Com, http://www.edmunds.com/advice/fueleconomy/articles/109194/article.html; U. S. Bureau of Transportation Statistics, http://www.bts.gov/help/highways.html. U. S. Department of Energy, Energy Information Administration, http://www.eia.doe.gov/cneaf/alternate/page/datatables/aft1-13_03.html. Stats Indiana, http://www.stats.indiana.edu/web/county/car_reg05.html.

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